

Current Youth Entrepreneurship Practice in Africa: Does It Work?

N Motts, 20th March 2000

Abstract

This short paper questions the validity of prevailing youth entrepreneurship development practice in Africa¹. Key issues raised are:

- a) risk versus competence;
- b) the changing face of competition; and,
- c) whether current norms of practice are consistent with 'good' entrepreneur behaviour.

It observes that current practices typically lead inexperienced, *potential entrepreneurs*² into high risk and low value adding self-employment situations where failure is highly probable. It suggests that such practice is inconsistent with prudent risk-minimizing entrepreneurship behaviour exhibited by seasoned and even cautious first-time *small business entrepreneurs*³. The paper offers reasons for this apparent inconsistency. It further suggests that current conceptions of the 'young entrepreneur' are outdated in today's competitive market environment. It concludes with a statement of the implications of this for Centre SME/livelihoods sectors programming.

1 The Problem of Accurately Identifying and Targeting Entrepreneurial Talent

Putting aside debates about whether entrepreneurial talent is 'born' or can be 'taught and acquired', a very low percentage of the general population is actually inclined towards becoming an entrepreneur. How does one accurately identify and target scarce resources to cost effectively reach the most promising 10%? Of those 10%, the majority of those who do start *micro-enterprises*⁴, generally speaking, can be expected to fail within the first five years. Although

¹ This paper is not a 'formally researched' piece and reflects the recent experience and perspectives of the author.

² *Potential entrepreneur*: literate young male/female with or without children, may or may not be a head of household, no or extremely limited prior experience in self-employment activity, unskilled viz a productivity competence and business competence, probably lacking in capital, may or may not be attending school.

³ *Entrepreneur*: a risk minimizing, competent business owner/operator able to sustain employment for him/herself and his/her employees.

⁴ *Micro-enterprise*: informal owner/operator and/or formally registered micro-business, operating on a temporary,

evaluative study of youth entrepreneur development and start-up support programs in South Africa is rare, what little has been done follows international norms: less than 5% of program completers actually end up becoming entrepreneurs⁵. If wider experience in Africa at all compares with contemporary South African experience, this poses serious strategic and methodological questions.

Not least, this experience indicates that few youth entrepreneur development and start-up support programs can effectively screen for 'best candidate' potential entrepreneurs.

If the 'best case' success scenario of young entrepreneurship start-up support initiatives is something on the order of a '3% of 10% of the total youth population', then youth livelihoods intervention aimed at youth entrepreneurship development and support is clearly not addressing the major part of the youth livelihood challenge and other measures are needed.

2 The Problem of the 'non entrepreneurial' Majority

In South Africa, the best current estimate of youth unemployment is 76%⁶. Recent reports in the South Africa press suggest that, currently, less than 5% of high school graduates will find employment.

Some 90% of youth are job-seekers, that is, their 1st livelihood preference is to find employment. Lacking an employment option, youth have three basis choices: idleness, further education, self-employment. Some who pursue further education enrol in entrepreneurship training and development programs, and most of these do so - it would appear - with a view to improving their potential employability. Of those who opt for some form of self-employment, many view this as a 'temporary' stop gap measure whilst seeking employment.

If entrepreneurship is not a realistic option for the majority, then the major focus of youth livelihoods effort should be on identifying 'less risky' alternatives which add economic or social value in some way.

3 The Problem of Multiple Competencies

Running a micro-enterprise calls for multiple talents which young potential entrepreneurs typically lack. To compensate for inexperience, a range of start-up support services are typically needed (in varying combinations) to support young entrepreneurs, including: functional business management skills development, entrepreneurial skills development, mentoring and decision support, information services, access to operating capital and financial advice, business premises, access to other factors of production or marketing (eg: equipment, transport, communications,

seasonal and/or full time basis

⁵ A recent long term evaluation of the national School Leavers Opportunity Training (SLOT) entrepreneurship development program in South Africa found that less than 3% of all entrants to the SLOT program were entrepreneurs five years after completion.

⁶ Hunt & Lascaris. 1998. The South African Dream. Halfway House. Zebra Press.

etc) on a rental or user-pay basis.

It is typically very difficult for intermediary support institutions to ensure that the needed bundle of support services are made available in a timely and consistent manner. Yet, such institutions come under strong pressure to increase the volume of clients served to help ensure continued funding. This pressure contradicts the need for intensive individual hand holding, a need substantially created, *inter alia*, by client choice (eg: young, inadequately skilled and inexperienced).

The notion that large numbers of young entrepreneurs can be ‘launched’ into a competitive marketplace and be expected to survive in large numbers is unrealistic.

The potential answer to this problem is to look for ways to reduce entrepreneurship risk.

4 The Problem of Intensifying Competitive Conditions in Local Markets

The conceptual premise of ‘youth as independent, capable and competitive micro-enterprise owner’ dates back several decades and, with little modification since then, explicitly or implicitly underpins most of today’s youth entrepreneur development and start-up support programs.

Market conditions are changing rapidly. National economic liberalization, globalization, improving communications and transportation systems, and rural to urban migration are some of many factors that are leading to more intense competition, particularly in the production and marketing of tangibles, in local markets.

Local markets are no longer insulated from wider competitive pressures, and survival under conditions of intensifying competition demands higher levels of business, analytical and innovation competence. In much of Africa, it is now the norm for bread baked in cities to be trucked and sold in the most rural of villages putting local bakeries out of business, and for tin buckets and clothing fabricated cheaply on mass production lines in Malaysia to find their way, via itinerant traders, into local rural markets at prices undercutting local producers. It takes a skilled and savvy micro-business operator to survive in such conditions. Few young micro-enterprise owners are competent enough to defend their fledgling ventures from such competition on a sustainable basis.

The key issue seems to be a conceptual one. Setting up young people as independent micro-enterprise owners, often in a line of business in which they have no prior experience with, and often without sufficient skill, is both high risk and a recipe for failure.

There is a need to challenge this ‘concept of entrepreneur’ and identify less risk inherent models and pathways to creating young entrepreneurs in Africa.

5 The Problem of Value Addition

One of the key problems facing micro-entrepreneurship relates to limited prospects for value addition. Too often, the prospective micro-entrepreneur ends up entering an already over-traded market or offering a low-value adding product or service. Whilst there are many factors contributing to this (eg: limited capital, limited skill), a substantial factor is market related. Most micro-entrepreneurs focus on delivering products and services to local markets, markets which - compared to external higher income markets - are low income markets with quite basic and limited needs.

This problem is playing out today at a national economic level and is exemplified in the value difference between conventional and information and knowledge-based economic activity.

Consider for instance, the trade environment between an agricultural, an industrial and an information economy producing respectively coffee, televisions and computer software. Assuming the products are worth \$300.00 each and are tradable with each other. At 15 cents per kilo, an agricultural country requires 2000 kilos of coffee to earn \$300.00. An industrial economy produces just one television to earn \$300.00. An information economy, however, has only to sell one copy of a software program to earn the \$300.00. In short, an information economy like the US can trade one copy of Microsoft 2000 for 2000 kilos of Uganda's coffee. By implication, African trading partners - including young micro-entrepreneurs - become captive markets of information economies.

Few youth entrepreneur development and start-up support programs today are sensitive to such trends and larger strategic issues. Such programs should be based on strategies that enable young micro-entrepreneurs to move up the value chain. Identifying such strategies offers fertile research opportunity⁷.

6 Good Entrepreneur Behaviour

Generally speaking, good entrepreneurs are 'calculated risk takers'. That is, their business planning and decision making reflects risk minimization and risk management behaviour. Such behaviour, in general:

- already has prior experience in the business sector of interest (eg: via prior employment)
- thoroughly understands the competitive operating environment and determines that a niche position exists to be captured
- assesses business skill competency requirements up front and ensures these needs are met (eg: own further training, sets up mentors, employs skilled personnel where needed, etc)
- tests the waters on a trial basis before making a full (eg: riskier) commitment
- avoids or minimizes debt finance

Whilst each youth entrepreneur development and start-up support program should be

⁷ For example, the recently completed South Africa Women Street Vendors project identified the need for women street vendors to 'move up the value chain' as a critical issue. The project leaders's future research agenda will focus on this.

assessed individually, in general, there appears to be a significant mis-match between the norms of such programs and good entrepreneur behaviour standards. A key reason for this may be that the leadership and staff of youth entrepreneur development and start-up support programs lack personal entrepreneurial experience, thus are not conversant with entrepreneurial thinking and perceptions of risk, and thus end up providing less than adequate guidance in these regards to program clients.

7 Summary: Implications for Research and Practice

A number of challenging needs - for which there are few answers - are raised⁸:

- a) more effective screening for best potential young entrepreneurial talent;
- b) more effective entrepreneur grooming strategies, these based on principles of risk reduction and leveraging first hand entrepreneur thinking and behaviour;
- c) re-conceptualizing the vision of the 'young entrepreneur' in ways that reduce risk and offset short run competence limitations;
- d) identification of strategies that lead to higher value addition and prepare young people to contend with tomorrow's market conditions; and,
- e) balancing the 'young entrepreneur' approaches with stronger emphasis on job creation and employment skills preparation.

Whilst there are many ways to think about tackling each of these needs, some key ingredients seem to be:

- f) design entrepreneurship development interventions in such a way as to provide both skilling, employment and entrepreneurship outcome options⁹;
- g) link skills training to real employment situations (apprenticeships);
- h) leverage mentoring by seasoned entrepreneurs and business peers;
- i) utilize out-sourcing, sub-contract freelancing linkages and functional specialization as ways to minimize risk and offset competency requirements;
- j) link youth skilling strategies to national development priorities (eg: public services delivery, achievement of universal access, information technology adoption by smaller enterprises, etc);
- k) facilitate external market access and linkages for value addition; and,
- l) focus on leveraging job creation by improving the competitiveness of small and medium scale businesses.

For the Centre programming, the key challenge seems to be to play a role in taking stock of changing macro-level circumstances, posing questions that need to be asked, assessing current

⁸ A recent interview, appearing in Annex A, with Ms Sharda Naidoo, the Director of the Alliance for Micro-Enterprise Development Practitioners, South Africa echoes many of these concerns.

⁹ "Youth and the New Economy", a small market demand and program design study, funded by IDRC under the "Extending the Benefits of E-commerce in Africa" project, is currently examining the potential to utilize ICTs to create e-commerce based visual design services business opportunities for youth either on a mentored employment or freelance, sub-contract basis.

practice against these, and contributing to the development of new and strategically advantageous options for tackling youth unemployment in Africa.

Is Youth Enterprise the Answer to Youth Unemployment?: An Interview with Sharda Naidoo, Director of the Alliance for Micro Enterprise Development Practitioners

Young people are often seen as the "poorest candidates" for successful enterprise initiatives. In this interview the Director of the Alliance for Micro Enterprise Development shares her perspective on successful youth enterprise..

YDN: Is Micro Enterprise the solution to youth unemployment?

SN No. We have to understand the context of unemployment. Unemployed young people are still coming out of the education system. Enterprise requires entrepreneurial qualities that are not taught or encouraged in educational institutions. The Department of Education is doing its best to change this, but it will take time.

Even experienced people who have good ideas for micro enterprise find it difficult to get premises. Young people are often relegated to backyards or the homes of their parents.

Article reprinted verbatim

Is Youth Enterprise the Answer to Youth Unemployment? in Youth Development Journal. 2000, Feb. 2nd edition. Pp 12, 13. Youth Development Network. Marshalltown, South Africa.

Running a business well requires multi skilling. It requires rigorous technical training, as well as a range of business skills such as negotiating for finance, planning, understanding the business environment, marketing and so on. All of these imply that people have good cognitive and conceptual skills which then have to be honed by experience.

How can we say to young people - so, go on, run a business!

I am not saying that young people cannot run businesses, they have enthusiasm, energy and qualities that are valued by the business world. But they have to be well trained, and this training is generally not available. .

YDN What would be the components of a good micro-enterprise training programme for unemployed young people?

SN Young people shouldn't be *pushed* into starting a business. They should be exposed to a range of opportunities: business, entrepreneurial, artisans and given the opportunities to get skills. Then, they should *choose* to start a business.

Before beginning training, young people should have exposure to the economy in which we live, and gain some understanding into how it works. This exposure should include seeing different work environments, for example, visiting a factory.

Young people should not engage in such training because they are desperate. They should only do what interests them, and what they like.

YDN What kind of mentorship should enterprise training programmes provide?

SN The notion of mentorship is good. It would be nice if everyone, in any position, had someone to support them, to listen and to guide, not just in enterprise and not just young people. However mentorship is a Rolls Royce solution. Can we afford it? Is it feasible?

We need to look at ways of providing guidance that is affordable. For example, can a telephone service be set up?

YDN Is micro enterprise appropriate as a way of alleviating poverty?

Article reprinted verbatim

Is Youth Enterprise the Answer to Youth Unemployment? in Youth Development Journal. 2000, Feb. 2nd edition. Pp 12, 13. Youth Development Network. Marshalltown, South Africa.

SN Yes. But we should not think that it can solve all poverty issues. There is the same enterprise ability among poor people as among anyone else. We should not assume that all poor people will be good entrepreneurs.

YDN Is there room for community development and enterprise training to come together?

SN Enterprise is about money. It doesn't have to be, for example young people could learn technical skills, sell what they make and thus pay for training, as a way of sustaining development.

Development is much bigger than enterprise. It must take into account social factors affecting young people in enterprise programmes. For example, people need a chance to talk, to be heard. Poverty and lack of entertainment, how does that affect people and thus their enterprise initiatives?

I keep noticing the good will of young people. There is a conscientiousness to try and put things right in society. We must harness and nurture this. We must not push young people into business activity without a support network.

YDN What advice do you have for people engaging in youth enterprise?

SN Go for self selection. Let people choose.

If young people want to engage in enterprise, make sure that they have lots of exposure first. Enterprise organisations should recruit business people so students can spend time with them, and get real exposure. This builds confidence in the participants as well as knowledge.

Entrepreneurship is a set of human abilities. It is not "a special skill". Every single person should learn such skills, whether they are in small business or not. It will benefit them where-ever they work.